Q1 2023 Tapestry Inc Earnings Call - Final

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Presentation

OPERATOR: Good day, and welcome to this Tapestry conference call. Today's call is being recorded today, Thursday, November 10, 2022. (Operator Instructions) . At this time, for opening remarks and introductions, I would like to turn the call over to the Global Head of Investor Relations, Christina Colone.

>>CHRISTINA COLONE, HEAD OF IR: Good morning. Thank you for joining us. With me today to discuss our first quarter results as well as our strategies and outlook are Joanne Crevoiserat, Tapestry's Chief Executive Officer; and Scott Rowe, Tapestry's Chief Financial Officer and Chief Operating Officer.

Before we begin, we must point out that this conference call will involve certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act. This includes projections for our business in the current or future quarters or fiscal years. Forward-looking statements are not guarantees, and our actual results may differ materially from those expressed or implied in the forward-looking statements. Please refer to our annual report on

Form 10-K, the press release we issued this morning and our other filings with the Securities and Exchange Commission for a complete list of risks and other important factors that could impact our future results and performance.

Non-GAAP financial measures are included in our comments today and in our presentation slides. For a full reconciliation to corresponding GAAP financial information, please visit our website, *www.tapestry.com/investors*, and conference call. Joanne will begin with highlights for Tapestry and our brands; Scott will continue with our financial results, capital allocation priorities and our outlook going forward. Following that, we will hold a question-and-answer session where we will be joined by Todd Kahn, CEO and Brand President of Coach. After the Q&A, Joanne will conclude with brief closing remarks.

I'd now like to turn it over to Joanne Crevoiserat, Tapestry's CEO.

>>JOANNE CREVOISERAT, CEO: Good morning. Thank you, Christina, and welcome, everyone. Our first quarter earnings were ahead of expectations despite the more challenging backdrop, demonstrating the strength of our brands, the agility of our operating model and the consistent execution of our passionate global team. Importantly, this performance also underscores our competitive advantages and Tapestry's successful transformation into a consumer-centric and data-driven organization, which has enabled us to successfully navigate the uncertain environment.

To this point, as we outlined at our Investor Day in September, our strategic agenda future speed is designed to drive strong, sustainable growth by powering our iconic brands to move at the speed of the consumer in an ever-changing world. It requires resiliency, continuous innovation and adaptability to pivot and evolve to effectively build our brands and foster enduring customer relationships.

During the quarter, we did just that. Although the landscape continued to shift at a rapid pace, we were nimble and responsive to change, remaining on track to deliver our fiscal year earnings target, excluding the impact of currency, while intentionally advancing our long-term initiatives.

Now turning to the financial and strategic highlights of the quarter, first, we powered global growth, delivering record first quarter revenue. These results were led by double-digit constant currency growth in international markets which we achieved despite COVID-related headwinds in China with pressure fully offset by outsized gains in the rest of Asia and Europe. In North America, sales grew slightly amid an increasingly difficult consumer backdrop. Overall, we achieved our top line expectations, highlighting the benefits of our globally diversified brands and business.

Second, we delivered compelling omnichannel experiences to drive another quarter of growth in our direct-to-consumer businesses. Our global stores led the growth, driven by significant traffic increases as consumers continue to embrace the return of in-person experiences. We leaned into this trend, supported by our world-class field organization and a fleet that is proven and highly profitable.

Against this backdrop, our digital business declined versus the strong gains from a year ago though remained over 3x ahead of fiscal year '19 prepandemic levels. We continue to believe e-commerce represents a significant growth driver for our company long term as we leverage our established capabilities to connect with consumers across their purchase journey.

Moving forward, our goal is to continue to offer our customers seamless, consistent and unparalleled brand experiences wherever they choose to engage with us.

Third, on a constant currency basis, we drove AUR increases in each brand's core category globally and in North America, supported by fashion innovation and product excellence. In addition, we continue to use data and analytics to enhance our go-to-market strategies, including assortment planning and pricing optimization, enabled by a deeper understanding of the preferences and drivers of customer purchases.

Fourth, we continue to build lasting customer relationships with more active customers shopping our brands in the quarter in North America. At the same time, we drove higher average spend among our customer base led by increases across units per customer, transactions per customer and purchase frequency. This was a direct result of our marketing efforts focused on improving productivity of our existing customer base.

Importantly, our customers in North America were increasingly omni, purchasing in both stores and online. This increased engagement is key as our omnichannel customers spend over 2.5x more than customers who shop with us in a single channel. In addition, we continue to acquire new customers across the portfolio with approximately 1.4 million new customers transacting with us in North America this quarter. Taken together, we generated first quarter earnings above our

On a currency-neutral basis, EPS rose 8%, which we accomplished even as we invested in platform capabilities and in our brands. notably with higher marketing. Overall, we continue to see significant runway ahead and are on track to deliver our 2025 strategic and financial goals as we remain focused on moving at the speed of the consumer to drive sustainable growth across our brands for years to come.

Now turning to highlights across each of our brands, starting with Coach. In the first quarter, we advanced our strategic initiatives, which fueled top line gains of 4% on a constant currency basis. First, we drove growth in our core leather goods offering with a focus on continuing to build equity in key families. Our icons again outperformed as we reinforced these pillars of the assortment through new and exciting platforms to create emotional connections with consumers. Our Willow family continued to resonate with customers and was the #1 family in the quarter. In Tabby, we debuted a seasonal refresh consisting of jewel tone leathers as well as a new version of our signature C. Importantly, we continue to see new introductions reinforce customer demand for the core Tabby style, which remained a top seller globally. And we expanded our Rogue family, which originally debuted in 2016 through a broader, well-balanced timeless offering. In addition, as a unique take on the style, we launched a limited edition Coachies collection, which features the brand's heritage details to create playful characters out of the handbags. The novelty collection was extremely successful, underpinned by an AUR of nearly $800 well above our average.

During the quarter, we also introduced the new and elevated Bandit family, which outperformed expectations globally at higher-than-average AUR. We Importantly, the Bandit crossbody has proven to be a successful recruitment vehicle, specifically with Gen Z customers. The brand's compelling and innovative product assortment fueled a mid-single-digit constant currency increase in global handbag AUR, including an increase in North America as anticipated.

Second, we focused our marketing investments on brand-building activities to drive connections with consumers, leveraging the brand's purpose. At New York Fashion Week, we are excited to announce Lil Nas X as one of our new global brand ambassadors. Our Courage To Be Real campaign, which launched in early October, has resonated with our core customer base and attracted new younger cohorts. The campaign has generated high engagement rates, highlighted by user-generated video content with consumers sharing their own courage to be real stories, igniting a conversation around self-expression across social platforms.

Third, we drove another quarter of outsized growth in our lifestyle offering, an area of significant opportunity as we know customers that transact across multiple categories have higher lifetime value. In footwear, strong revenue gains were fueled by our new styles, including the Lea loafer and the Lucy sandal, as well as continued momentum in the men's low line sneaker. These options have been successful with both our core customer and younger consumers.

In ready-to-wear, our cut and sew assortment featuring our signature C, Rexy and Horse & Carriage continued to resonate with consumers, highlighting the importance and resonance of Coach's iconic brand codes. In men's, our core leather goods families, including Gotham, League, Charter and Hitch continued to drive our results with success in backpack and messenger silhouette, while the traction in our field tote offering showcases the potential of our all gender assortment.

Fourth, we focused on enhancing omnichannel experiences to drive engagement and brand heat, showcasing expressive luxury. We delivered gains in our store business and leaned into experiential brand building through immersive pop-ups across the globe. We debuted our Mint & Surf collaboration through a 360-degree campaign, anchored by a disruptive space in Lower Manhattan aimed at attracting a new and younger audience through partnerships with influencers and interactive programs.

And in Korea, we created a localized pop-up to celebrate Coach's legacy through the lens of a quintessential American neighborhood, featuring an interactive post office, coffee shop and bakery. Additionally, we were excited to launch our first-ever virtual store just last week to kick off the holiday season, a nod to our focus on the omnichannel experience and our test-and-learn agenda. The store was inspired by a nostalgic gift shop and allows guests to move through themed rooms to shop the holiday collection.

Looking ahead, we're continuing to prioritize long-term brand health and remain disciplined in our approach to discounting amid an increasingly promotional environment. To this end, this holiday, we're focused on winning with consumers through emotional product and storytelling, including impactful visual installations in stores.

Specifically, we will offer innovation across the assortment, including the relaunch of Demi, a classic icon from the brand's archive, as well as differentiated capsule collections and collaboration. And we're building on the momentum of the recent launch of the Courage To Be Real campaign. Coach's holiday marketing is inspired by its unique heritage and purpose, and highlights the timelessness of the brand in a fun and joyful way. Our campaigns will feature our global ambassadors and will be amplified with high-impact placements, notably on social channels such as YouTube and TikTok.

In closing, Coach is an iconic brand, and we are committed to continuing to grow in a healthy, sustainable way. In its next chapter, we are bringing expressive luxury to life to engage with the modern consumer through emotional brand storytelling and product innovation that allows for self-expression. We believe this builds on our recent momentum and the best of Coach's past while taking the brand to new heights in the future.

Now moving to Kate Spade, in the first quarter, revenue rose 10% in constant currency, led by a 7% gain in North America and 23% growth in international markets. Overall, we're harnessing the power of the brand to fuel multifaceted growth by focusing on 3 priorities: becoming more emotional, more lifestyle and more global. During the quarter, we made progress against these strategic priorities. First, we continued to amplify our key handbag platforms while simultaneously launching emotional newness. We saw continued traction in our #1 Knott collection. In addition, new platforms such as the Katy family resonated with both new and existing customers and outperformed expectations. Looking ahead, we're continuing to build out these platforms as we create iconic families for the brand. At the same time, we introduced new on-trend handbags, including exciting fashion shapes, such as Boxxy. Importantly, this style was a recruitment driver, bringing younger, more diverse customers to the brand.

Within our novelty assortment, which remains a unique and differentiating factor for Kate Spade, we launched Lady Leopard, an elevated yet highly wearable offering that performed well globally. In fact, the Lady Leopard tote was a top-performing style during the quarter with an AUR of well over $400. Together, the success of our product offering supported the brand's handbag AUR growth of low single digits at constant currency, including gains in North America.

Second, we expressed the unique world of Kate Spade through distinctive storytelling and engaging campaigns to fuel brand heat. Our fall campaign was centered on our townhouse team and featured local activations showcasing the full lifestyle offering of the brand. We also experimented with our first foray into the Metaverse with our digital townhouse. In addition, we are excited by our return to New York Fashion Week in September to debut our upcoming spring/summer collection amid a wide array of female influencers that embody the brand's purpose. And we continue to increase our reach on social channels, focusing on the younger audience through platforms such as TikTok, Pinterest and YouTube.

Third, we built on the strong foundation of our lifestyle positioning and delivered high single-digit growth across ready-to-wear footwear and jewelry. As we've shared previously, these categories fostered deeper connections with customers supporting higher lifetime value and global expansion. To this end, growth in lifestyle contributed Kate Spade's increase in average customer spend in North America.

Fourth, we delivered growth in North America while fueling significant sales growth internationally in keeping with our long-term goal of expanding the brand's global reach. To drive brand awareness and increase engagement in key regions, we hosted localized and relevant events to bring our fall townhouse campaign to life. For example, at our Ginza store in Japan, we created an immersive pop-up highlighted by live music, well-being discussions and flower arranging workshops. And just last month, we launched a new store design concept in Singapore. The environment is elevated and luxurious, while at the same time, warm and inviting, a representation of the brand. The initial performance has been strong, and we intend to leverage this format for our new store openings going forward.

Looking to holiday, we will connect with consumers by leading with a motion in everything we do. We're continuing to build iconic handbag styles with the expansion of key families, including the best-selling Knott collection and the new Katy family, as well as the introduction of Gramercy, an elevated core platform, which will include a (inaudible) monogram. We're also offering emotional newness within novelty, including a Zebra animal print and playful candy theme styles. And we'll continue to fuel lifestyle with an emphasis on jewelry, footwear and ready-to-wear, capitalizing on our recent success.

To amplify our compelling product offering, we're continuing to lean into emotional storytelling. We just launched our Have A ball marketing campaign, which reinforces Kate Spade's Joy Colors Life mantra and a celebratory spirit to drive gifting and self-gifting. We're also focused on driving engagement with consumers across channels in new ways. For example, in key cities, we're bringing local influencers together with our store associates to co-create content, highlighting a full range of products. Further, Kate Spade store associates will be live streaming on our e-commerce site throughout the season to showcase our collections and offer gifting ideas, underscoring our focus on delivering innovative omnichannel experiences.

Overall, we remain confident in the significant long-term runway ahead and are committed to investing in brand building activities that further unlock the power of the Kate Spade brand and community. Importantly, we've made meaningful progress over the last 2 years, and we have the right strategy in place to take us into the future to deliver sustainable top and bottom line growth over our planning horizon.

Turning to Stuart Weitzman. We delivered growth in North America, aided by strength in the wholesale channel, while pressure remained in the highly penetrated Greater China region given COVID headwind. Importantly, we made progress on our strategy to win with heat to drive brand awareness and growth. First, we sparked consumer desire with high emotion product and a compelling assortment as we lean into our authority in occasion wear and build on our casual foundation. Recent introductions continue to resonate with our consumer base, specifically wear to work styles as we capitalize on the shifting needs within the market. The Stuart family, which was launched earlier in the calendar year is quickly becoming a staple within our offering. This collection of pumps and boots drove 15% of sales and was a favorite among both new and existing customers. At the same time, the recently introduced Soho loafer delivers outsized growth.

Through our elevated assortment, coupled with price increases and a significant pullback in promotional activity, the brand delivered another quarter of AUR gains at constant currency, rising slightly versus the prior year on a global basis and high single digits in North America.

Second, we focused on strengthening wholesale partnerships and an increasing visibility of the brand for consumers. We've created disruptive activations, including pop-ups with key accounts and online takeovers. Additionally, we've improved placement within high-end wholesale locations, highlighted by a shoe floor takeover at the New York City Nordstrom in September, which well outperformed expectations.

Third, we created brand heat through impactful marketing campaigns, highlighted by the launch of our new purpose new visual identity and new ambassador in September. At the end of the quarter, we kickstarted brand heat with the debut of Kim Kardashian as the global brand ambassador, as we amplify Stuart Weitzman's purpose to celebrate women who stand strong. We were pleased to be listed in the best campaigns of the season by both Elle and Harper's Bazaar, as we diversified the placement of the announcement across social channels and out-of-home imagery across key global cities, including New York City, Los Angeles, London and Milan.

Looking to Holiday at Stuart Weitzman, we're focused on our strategy to win with heat to execute in a rapidly changing environment. We're capitalizing on our strength in boots and booties during this peak season. At the same time, we're updating our key items, including the Soho and Stuart families with emotional additions and embellishments to fuel excitement among consumers. Overall, we remain focused on our strategic priorities to build brand awareness, increase market share and position Stuart Weitzman for continued profitable growth.

In closing, our first quarter results continue to highlight the power of our brands in the attractive and durable nature of our categories. Importantly, our foundation is solid, and our strategic direction is clear. We remain focused on successfully navigating near-term headwinds, staying agile and close to consumers while advancing our long-term growth initiatives. We see significant opportunity ahead to drive meaningful, sustainable growth and value for all stakeholders.

With that, I'll turn it over to Scott, who will discuss our financial results, capital priorities and fiscal '23 outlook. Scott?

>>SCOTT ROE, CFO: Thanks, Joanne, and good morning, everyone. We delivered solid results in the face of a volatile backdrop as we focused on the factors within our control. In the first quarter, we achieved record revenue of $1.5 billion despite FX headwinds and COVID disruption in China and grew earnings per share at 8% against last year, excluding $0.10 of currency pressure. At the same time, we returned $175 million to shareholders demonstrating our commitment to enhancing long-term value.

Turning to the details of the quarter, starting with revenue, which will be shared on a constant currency basis, sales rose over 5% led by international, delivering 11% growth versus prior year, which was ahead of our expectations. We achieved strong growth in APAC, which rose 9% versus prior year despite COVID-related headwinds in Greater China. In Japan, revenue increased 16%, while Other Asia grew over 135% with notable strength in Singapore, Malaysia and Australia and New Zealand. These trends were driven by a pickup in store traffic as we anniversary last year's pandemic-related headwinds.

In Europe, sales increased 24%, fueled by higher international tourist traffic, notably from the Middle East and within Europe, as well as continued growth with local customers. For Greater China, sales declined 11% data COVID related headwinds, though improved meaningfully on a sequential basis from the 32% decrease reported in Q4. However, as we enter our second quarter, trends softened due to the further lockdowns and business disruption. As a result, we have tempered our fiscal year '23 outlook based on the expectation for a delayed recovery in China, which I'll touch on shortly.

Turning to North America, sales rose slightly versus prior year, representing an increase of nearly 45% on a 2-year basis. By channel, we delivered low single-digit gains in our direct business, which included a high single-digit increase in stores fueled by the return of traffic and a high single-digit decline in digital, given the combination of lapping last year's strong gains as well as a consumer shift to shopping in store. To that point, on a 2-year basis, digital sales rose over 35% and remained over 3x ahead of our fiscal year '19 prepandemic levels. For wholesale, revenue increased over 20% compared to the prior year, partially aided by approximately $15 million of earlier-than-expected shipments across key accounts globally.

Moving down the P&L. As expected, gross margin declined due to incremental freight pressure of 130 basis points and FX headwinds of approximately 70 basis points. In addition, our results included a negative impact from mix due to a lower penetration of the high-margin China business, as well as a higher penetration of wholesale impacted by timing. Outside of these factors, our operational gross margin expanded versus prior year.

SG&A grew 5% versus last year, reflecting an increase in marketing as we continue to invest in brand-building activities along with planned investments in our operating platform. Compared to our expectations, expenses were largely in line with plan and included a slight timing benefit with the second quarter. Taken together, operating income was in line with our expectations, while EPS outperformed. The primary contributors were a $0.05 benefit related to timing with the second quarter as well as a $0.03 tailwind from a favorable tax rate, which offset incremental FX headwinds of $0.03 in the quarter.

Now turning to our balance sheet and cash flows, as expected, we ended the quarter with $557 million in cash and investments and total borrowings of $1.68 billion. There were no borrowings outstanding under our $1.25 billion revolver. Free cash flow for the quarter was an outflow of $198 million, including CapEx and implementation costs related to cloud computing of $45 million. As anticipated, inventory at quarter end was 39% above prior year, including an increase in in-transit of nearly 50%, impacted by longer lead times.

Overall, we are pleased with the makeup of our current inventory, which is highly penetrated in core and seasonless styles. We are well positioned into holiday and continue to expect to end fiscal year '23 with inventory up single digits compared to the prior year as we've taken proactive measures to align our second half inventory receipt plans with our updated revenue outlook.

Moving to our capital allocation priorities. We continue to plan for approximately $1 billion in shareholder returns in fiscal 2023 which includes share repurchases of $700 million, including $100 million bought back in the first quarter as planned, and dividend payments totaling approximately $300 million. This is based on an annual dividend rate of $1.20 per share, which represents a 20% increase over the prior year. Overall, our priorities are unchanged and consistent with what we outlined at our recent Investor Day. First, we're investing in the business to drive long-term profitable growth; and second, we're returning capital to shareholders through dividends and share repurchases. In the future, we believe our platform is scalable and would evaluate M&A that is accretive to our organic TSR opportunity.

Now moving to our outlook for fiscal 2023, we are updating our full year earnings outlook to reflect a $0.20 FX headwind from further strengthening of the U.S. dollar. On a currency-neutral basis, our EPS guidance is unchanged, but reflects our latest thinking across 3 areas of the business. First, we've incorporated a more modest revenue outlook in North America and Greater China, partially offset by momentum in Other Asia and Europe. Second, we're planning for an additional SG&A savings through proactive expense management and variable expense reductions. And third, we expect a favorable tax rate for the fiscal year. Our ability to maintain our earnings outlook on a currency-neutral basis despite the volatile external environment highlights the resiliency and agility of Tapestry's operating model.

So let's run through the details of our outlook. For the fiscal year, we expect constant currency revenue growth of 2% to 4%. On a reported basis, we anticipate sales to be in the area of $6.5 billion to $6.6 billion, which represents a slight decline compared to the prior year, including roughly 450 basis points of FX headwinds.

Touching on details by region at constant currency, in North America, our guidance contemplates low single-digit declines throughout the balance of the year, in line with the Q1 trend for our direct business. In Greater China, while we continue to expect growth for the fiscal year, we now anticipate a delay in the recovery compared to our prior assumption. In Japan and Europe, we expect low double-digit gains, while Other Asia contemplates growth of over 30%. In addition, we anticipate a year-over-year operating margin decline of over 70 basis points which now incorporates the expectation for FX pressure of roughly 120 basis points compared to our prior outlook for 100 basis points of impact. We expect the majority of this FX headwind to flow through the gross margin line. This contemplates gross margin relatively in line with to slightly below prior year, reflecting the benefit of moderating freight costs as well as AUR increases across all brands. We expect these tailwinds to be offset by the previously anticipated rising input costs for materials, as well as the negative impact of FX, as mentioned.

On SG&A expenses, we anticipate modest deleverage for the year, reflecting continued investments in growth drivers, including in digital and the planned 2023 opening of our new fulfillment center in Las Vegas partially offset by proactive actions we're taking to reduce our expense base, as mentioned previously.

Moving to below the line items, net interest expense for the year is anticipated to be approximately $30 million to $35 million, a significant decline versus fiscal year '22, reflecting the benefit of our recently executed cross-currency swap agreements. Tax rate is expected to be approximately 20%. This represents an increase against last year, primarily due to the anticipated geographic mix of earnings. Weighted average diluted share count is expected to be in the area of 242 million shares. This reflects approximately $700 million in share repurchases expected in the fiscal year as noted. So taken together, we project EPS of $3.60 to $3.70, representing mid-single-digit growth compared to the prior year, which includes a year-over-year currency headwind of approximately $0.50.

Finally, we continue to forecast CapEx and cloud computing costs to be in the area of $325 million. We anticipate approximately half of the spend to be related to new stores and renovations primarily in China, with the balance dedicated to our ongoing digital and IT initiatives, including investment related to our new fulfillment center in Las Vegas.

As previously outlined, given the volatile environment and last year's atypical comparisons, we continue to expect significant variability by quarter. Specifically, we expect revenue and earnings growth to be back half weighted, helped by the planned return to growth in Greater China beginning in the third quarter. In addition, we will anniversary the substantial incremental headwinds from freight beginning in the second quarter, providing a tailwind to margin.

For the second quarter in total, we expect revenue to decline low single digits in constant currency, which includes Greater China sales to be in the area of 10% below prior year, largely consistent with the Q1 trend. On a reported basis, we anticipate global sales to be down mid-single digits compared to prior year, including the negative impact of approximately 450 basis points from FX. We expect EPS of approximately $1.25, which includes a currency headwind of approximately $0.15 versus last year, as well as the previously mentioned timing impact with Q1 of $0.05.

So in closing, we delivered first quarter results ahead of expectations and maintained our earnings outlook for the year, excluding the impact of currency. This is a testament to the resilience of the categories where we play, the strength of our brands, the benefits of our transformed globally diversified business model and our talented teams around the world I.

mportantly, we remain on track to return $1 billion in cash to shareholders in fiscal year '23, consistent with our prior outlook. As we look forward, we are focused on successfully navigating near-term volatility while delivering against long-term strategies as outlined in our recent Investor Day.

And now I'd like to open it up to your questions.

Questions and Answers

OPERATOR: (Operator Instructions) We'll take our first question from Bob Drbul of Guggenheim Securities.

>>ROBERT DRBUL, GUGGENHEIM SECURITIES, LLC, RESEARCH DIVISION: Congratulations on the first quarter. Can you touch on your outlook going forward? Specifically, how you're feeling about the business heading into holiday?

>>JOANNE CREVOISERAT: Bob, we delivered a strong quarter, one that illustrates our agility in a difficult environment. In the first quarter, we delivered record revenue, and we drove AUR increases across all of our brands, which indicates we're driving healthy growth across the portfolio. And we're deepening our consumer engagement. We're seeing more active customers shopping our brands and they're spending more with our brands. And for holiday, we're well positioned as we head into holiday. I'm excited about the product. We're delivering more newness and innovation across all of our brands. We've integrated marketing that will generate excitement with our emotional storytelling capabilities. We're much better positioned with inventory. As you might recall, last year, we were significantly supply constrained given the disruptions we saw in the business last year. And as I think about our outlook, we are disciplined operators. Our outlook reflects realistic expectations given the macro uncertainty. Our eyes are wide open, and we have a prudent plan, and we'll manage our business prioritizing long-term brand

health. As always, our North Star, we're staying close to our customer. We have the proven agility to meet what we see as increasing demand across our brands.

OPERATOR: We'll take our next question from Ike Boruchow of Wells Fargo.

>>IRWIN BORUCHOW, WELLS FARGO SECURITIES, LLC, RESEARCH DIVISION: Scott, I just wanted to follow up to Bob's question. Can you unpack the guidance a little more? I think you broke out a little bit on North America and China being weaker in constant currency versus your original plan. Kind of just curious of what exactly was the plan before versus today. And then as you kind of approach the guide, like do you think this is appropriately derisked based on what you're seeing in the market, level of conservatism built in? Anything there would be great.

>>SCOTT ROE: Sure, Ike, so first of all, maybe a little bit of context or a reminder really what our basis for guidance was coming into this year, 90 days ago. And as it relates to China, we've seen what COVID-related lockdowns look like. We had said we modeled a modest and slow recovery based on experience that we've had in the region before and similar kind of situations, and we expected that to begin and continue throughout the year. What we saw just another perspective. In the fourth quarter, we were down 35% in China, and we just delivered. First quarter, it's down 10%. That's actually a little better than our expectations for China. And we were progressing well against that improvement until the PRC Congress at which time we saw our business take a bit of a step back. Since that time, we're back on the recovery on a slow basis and gives us confidence.

So what we've done is delayed our China recovery, essentially think about pushing it out a quarter so that in the second quarter, we inflect back to growth and for the full year, kind of high single digits for the full year.

We also reflected the trends we're seeing. We're not trying to outguess the market and project either a big, good or bad inflection points. Our North America business was modestly below expectations, and we've taken that trend that we see and projected that forward for the balance of the year. Conversely, rest of Asia was stronger, right? It's really doing well. Some of that anniversarying the COVID related shutdowns. But the trend in the business is good, and we projected that forward. And lastly, given the volatile environment and some pressure, I guess, cautious position, we're being aggressive on cost, and we're being cautious on hiring. We're looking at each cost carefully, but at the same time and importantly, continuing to invest in the long term of our business. We're investing in marketing, we're investing in those digital and the capabilities that we believe are differentiating over time. And I think this guidance, at least in my opinion, really speaks to the disciplined operation of this team and this group as we're able to offset some -- a little bit of top line pressure and offset it with some actions that we've taken. And really from a currency-neutral standpoint, we're holding our guidance. And from an operational standpoint and just adjusting for the strengthening of the U.S. dollar, which is about $0.20 in EPS for the year.

>>JOANNE CREVOISERAT: And I'll just add, Ike, as we think about China, as Scott mentioned, we pushed out our expectations for that recovery based on the trends that we're seeing in the market and some continued COVID disruption in the second quarter. We've pushed that out to the back half of the year, but when we expect the gradual recovery. But we have positioned, and what you've seen in our guidance is even if we don't see that recovery, we still have a path to the low end of our guidance if things don't improve to our expectations in the China market. So we're managing our business. As I said, we're disciplined operators and we're managing our business around the globe to drive outcomes and to drive the growth that we expect, and that's reflected in our outlook.

OPERATOR: Our next question is from Lorraine Hutchinson of Bank of America.

>>LORRAINE CORRINE HUTCHINSON, BOFA SECURITIES, RESEARCH DIVISION: You made mention of the increasingly promotional environment. Can you just provide an update on your promotional strategy and pricing strategy? And with that, can you speak to the customer reaction to the most recent price increase in August?

>>JOANNE CREVOISERAT: Yes, why don't I kick it off broadly and then maybe Todd can give you some color on what we're seeing at Coach. But across all brands, we drove AUR increases in the first quarter. This has been a consistent focus of ours, and that continues. We see more opportunity to drive AUR increases. Customers are recognizing the value we deliver across our brands. We still continue to see pricing power. As we think about the promotional environment, even in Q1, we're already seeing it intensify, but we are being disciplined in how we

manage and respond. There are so many levers under our control, and we continue to drive healthy brand growth. We're delivering product innovation that supports sustained higher AUR. The second quarter is always promotional. We expect there will be promotions, but we also expect to be disciplined and as we go through the balance of the year to continue to drive AUR growth.

But Todd, why don't you add color on what you're seeing at Coach.

Thank you, Joanne. I think what we saw in the first quarter and what we had anticipated was a return to increasing AUR in handbags. And we did that both in North America and globally. We achieved that, one, through price increases ticket, and also, we were very disciplined in our promotional cadence. We have not seen any pushback from our customers on our pricing increases. And I think it comes down to 3 reasons. One, the innovation in our product. That has really set us apart from so many of our nearing competitors. Second, the compelling and our purpose-led brand storytelling through our expressive luxury lens. And as we start giving that life, the product really and the brand, it sets itself out in a different format than perhaps others. And then third, when we think about the inherent value of the Coach brand, even after 3 years of AUR growth, we compare our price points to traditional European luxury. The delta today is greater than any time in our history. So the intrinsic and inherent value that our clients are seeing is there. So we're excited by the path and the journey we set out, and we anticipate seeing further AUR growth throughout our fiscal year.

OPERATOR: Our next question is from Matt Boss of JPMorgan.

>>MATTHEW BOSS, JPMORGAN CHASE & CO, RESEARCH DIVISION: Joanne, so could you speak to new customer acquisition trends? And more so underlying demand trends that you saw in North America as the first quarter progressed. Any material change in customer behavior you've seen in North America so far in the second quarter at direct-to-consumer or wholesale? And Scott, just in North America, if you could just elaborate on the change that you're making in terms of the back half of the year trend rate from a constant currency revenue perspective, maybe relative to what you were thinking 3 months ago.

>>JOANNE CREVOISERAT: Yes, let me start with the consumer and what we're seeing, Matt. We're continuing to see and welcome new consumers to our brands, 1.4 million new customers in North America. And we are also focusing large file of existing customers. And what we saw in the quarter was really successful execution behind those objectives. And the result of our execution leveraging all the data and understanding of the customer, along with our strong go-to-market strategies was more active customers engaging with our brands. We saw higher spend per customer through more units per transaction. We're seeing higher overall spend and higher frequency driving that. So really successful quarter in terms of how we're engaging customers, both new and existing. And the other thing that we're seeing in the trends, we are seeing a softening in North America and just related to the consumer backdrop. But we're also seeing customers becoming more omnichannel. We're welcoming a lot more customers back in our stores. We're seeing traffic. We're seeing traffic increase to our store channel, and we're thrilled to be welcoming more customers back to our stores. Because as we grow this omnichannel customer, a customer who shops across both channels, we see that customer being much more productive, spending 2. 5x more. So in terms of the consumer, while the backdrop we see is softening, and we've seen that in the macro environment, we are seeing strength in terms of how we engage consumers and how they're spending and -- it's a good sign for us in the future in terms of our ability to drive lifetime value as we increase our omnichannel customers.

>>TODD KAHN, CO-CEO: And Bill, I just want to add 1 thing for the Coach brand. Since Courage To Be Real little NOS Nas campaign we've seen an increase in new customers. Now we're only a month in. So I don't want to start calling full success, but we've seen a material positive change from our September to October, new customer acquisition. And we do believe it is because our campaign is resonating.

>>SCOTT ROE: Yes, and Matt, just to address your question directly as well, it's about $200 million is the impact of the moderation in North America, and that takes us from prior guide of low to mid-single to down slightly, which is in line with the trend that we see today. Wholesale timing can change that. We were up slightly in the first quarter. So there's a little noise quarter-to-quarter. But I think the important thing being 90% direct-to-consumer is

the trend that we're seeing in Q1 is what we projected. And to the earlier comment, we're not trying to be heroic, we're not trying to outguess the market. We're trying to reflect what we see on the ground today on a go-forward basis, and we're making prudent and appropriate adjustments accordingly in order to maintain the currency neutral guidance, as we said earlier.

OPERATOR: We'll take our next question from Michael Binetti of Credit Suisse.

>>MICHAEL BINETTI, CRéDIT SUISSE AG, RESEARCH DIVISION: So I knowyou already mentioned you raised price by 6% in August. You got the AUR back to positive, nice to see, especially in North America. What are you contemplating for North America as I guess, through the year, but as we look to calendar '23, you have a competitor saying they're going to raise prices in spring the pause after that. And I guess more near-term resale platforms are saying they're seeing signs of trade down. I think some of the luxury department stores are saying that they're seeing aspirational customers that entered the luxury categories over the last few years start to slow. I'm curious about how the push and pull of that affects you as an aspiration brand.

>>JOANNE CREVOISERAT: Yes. We have -- I'll kick it off and maybe then, Todd, you can add some color. We are not reacting to what's happening outside, but are really focused on engaging consumers. Our focus is on running our business in a healthy way and delivering the value that our consumers expect. And that's a strategy that has been working for us over many years. Over the last 3 years, we've really focused on the things that we can control and delivering great value for our consumers. There are a lot of dynamics that are playing out in the business. At the end of the day, our brands represent tremendous value in the marketplace from consumers, and we're seeing pricing power. And we intend to continue our focus on delivering innovation, leveraging data to understand our consumers even better. And we do see opportunity to continue to drive price and AUR through this year and as we deliver into the future, driving margin accretion as well. So Todd, I'll let you add some color on what you're seeing in your plans for the Coach brand.

>>TODD KAHN: Thank you, Joanne. As we said in our Investor Day, looking through this lens of and really manifesting expressive luxury, I think looks at as a part. And we -- to remember -- to remind everyone, we are the Coach brand is almost 90% direct-to-consumer. So our interaction and the data we get from our consumer is so powerful for us. And we have been on this journey, not just in 1 quarter, but we have really focused on our growth on AUR and driving promotional cadence down materially. And so when you take that lens, when you take what we did with the acceleration program, and reduce our SKUs and focus on our families and elongate those family and then bring innovation, one example that we mentioned, that Joanne mentioned in our prepared remarks was Coachie the (inaudible) Coachie which had an AUR of over $800. And that goes to the fact that at the end of the day, emotion will always trump price. It will always connect people with emotional product. And that compares to -- when you talk about traditional luxury, the average price points are so materially different that both in good times and in maybe more challenging times, I think the coach value stands out and is very compelling to our customers.

>>JOANNE CREVOISERAT: Yes. And I want to just add on the back of that, that also we're seeing this across all of our brands. We're seeing it for Coach, and we have significant runway at both Kate Spade and Stuart Weitzman, where we continue to talk about how this emotional product, understanding our consumer is driving higher AUR. And we cited examples of the Lady Leopard collection at Kate Spade, driving that emotional connection with consumers and driving AUR higher. So we absolutely have runway ahead, particularly at Coach and in Kate and Stuart as well.

OPERATOR: Our next question is from Oliver Chen of Cowen & Company.

>>OLIVER CHEN, COWEN AND COMPANY, LLC, RESEARCH DIVISION: Joanne, Scott and Todd, regarding full price relative to outlet, what are you seeing with traffic trends, anything noteworthy, particularly as inflation continues to be an issue for the consumer. ?And then as we think about pricing analytics and SKU management, what inning are you in there? How is it interplaying with the prospects for continued AUR progress?

>>TODD KAHN: Why don't I start, and then Joanne, since you used the baseball metaphor will clean up afterwards. But first, we're seeing great traffic in both channels, particularly in stores. And as we've seen the

consumer in North America is returning to stores. And one of the things we like about our model is stores are highly profitable for us. Digital is highly profitable for us. And we're looking to maximize the opportunity, be where the customer wants to be. And we also love having them back in our stores because the opportunities to upsell and to create that connectivity is always most significant in the store format.

In terms of innings, I think we're more at this point, cricket than baseball. This is a long, long game that we're going to be playing. And we are going to continue to find opportunities to continue to drive value. And I think we will have pricing power at Coach for a very long period of time. And we're also really extending the full lifestyle of the brand. And that opportunity, as we've talked about, in men's and footwear and ready-to-wear and all gender programs is really where I see us winning in the future.

>>JOANNE CREVOISERAT: And Oliver, I think you talked about our -- you touched on our analytics platform and how that's helping us drive, these are programmatic changes that we've made to really leverage the vast amount of information we have about our customers. We're learning about our customers, and we will continue to leverage that in our -- and managing our assortment. Our SKU productivity is at some of the highest levels we've seen. Because of these new capabilities. Importantly, as we optimize our assortments, we're understanding at a customer level where the assortment is resonating, what items are used are great recruiting tools for new customers and some of our target customer groups. We talked about the Bandit as a great recruiting tool for the Gen Z consumer. So it's informing so much of our execution as well as analytics around pricing.

I would say we're still in early innings. I like Todd's reference of cricket versus baseball. We think about it as an infinite game. And the more we learn about consumers, the more we're able to deliver against what they value and the better we are at executing and delivering AUR increases and growth overall for our brands.

>>OLIVER CHEN: And lastly, Futurespeed. Where do you see the most opportunity for continued agility as test read and react and lead times are so important to manage dynamically?

>>JOANNE CREVOISERAT: Speed and agility is really the name of the game, and it has been for the last couple of years. I think we've been exercising those muscles for a few years and continue to perform we're seeing demand trends shift around the globe with real outperformance in rest of Asia. The fact that our international business was up double digits including China, overcoming the drag that we're seeing because of the COVID disruptions there, I think is a testament to our ability to react and respond to the changes we're seeing around the world. And as we think about the drivers of future speed, it starts with deepening engagement with our consumers. We saw that in the first quarter. We're delivering -- we're also delivering product innovation and excellence. We're building a more omnichannel business. We're seeing that with our customers coming back to our stores. seeing increasing omnichannel, and we're driving global growth. So all of the pillars of our future strategy are intact, and we believe that is the unlock for future growth and value creation.

OPERATOR: Our next question is from Mark Altschwager of Baird.

>>MARK ALTSCHWAGER, ROBERT W. BAIRD & CO. INCORPORATED, RESEARCH DIVISION: I'll focus in on Kate here for my question. Nice acceleration in sales growth there, including North America. So just curious, any other callouts on what drove that positive divergence and whether you're also baking in softer North American trends for that brand over the balance of the year. And then switching to margin, SG&A did track a little bit higher than in sales there. Just any other color you can share on the operating margin range that's embedded in your guidance for the year?

>>JOANNE CREVOISERAT: Mark, let me start, and then I'll flip it to Scott to unpack some of the margin drivers. But overall, we continue to make progress at Kate Spade. We're really pleased with the growth we delivered 10% constant currency, including growth in North America. We're seeing strength across the globe in Japan as well. It's it's a continuation of our focus on customer centricity and brand building. We're focused on being more emotional, more lifestyle and more global. And we saw all of that come to play in in the quarter, continued success in our assortment. We've continued to deliver innovation but also we're seeing traction behind our core offering. So that continues to be a good sign. And the AUR growth is a good testament to how the customers are

responding to the innovation that we're delivering at Kate Spade. So we feel really good about the progress we're making there. We continue to be confident and we're on track to deliver our $2 billion goal and beyond at high-teens operating margins. And we're making investments to make sure that we continue to deliver behind that. But I'll turn it to Scott to unpack the operating margin piece.

>>SCOTT ROE: Yes, thanks, Joanne. And Mark, just taking it up where Joanne just left off. First of all, gross margin, just remember the factors that we've talked about at the Tapestry level certainly are relevant here. You talked about FX pressures, the dynamics around freight that we've been talking about now for multiple quarters are pressuring us in the short term, but we would argue transitory and importantly, AUR growth and pricing power are alive and well at Kate Spade and our ability to maintain those margins over time. We remain confident in the gross margin side. And I think we even talked about this a little bit last quarter. This is an investment year for Kate. As they are coming on to the capabilities of our platforms, we believe these are differentiators for all of our brands on a go-forward basis. And some of those implementations in key bringing them on to those digital and analytical platforms this year is showing on the P&L and SG&A load, I would say, on an incremental basis or on a marginal basis, we continue to see the progress in profitability, and we still have confidence that there on a path to that high-teens operating margin that Joanne just reaffirmed a minute ago.

OPERATOR: We'll take our next question from Brooke Roach of Goldman Sachs.

>>BROOKE ROACH, GOLDMAN SACHS GROUP, INC., RESEARCH DIVISION: Joanne, Scott, I was wondering if you could talk a little bit about the health of the brands that you see in China and the competitive environment in that region outside of the lockdown and the COVID restrictions. What are you seeing within your brand health? What are you seeing in sales trends? And how is the competitive and promotional environment in that region specifically? What gives you confidence that you'll be able to return to the levels of growth that you have embedded in your second half forecast as the lockdowns begin to ease?

>>JOANNE CREVOISERAT: Yes, let me start and then maybe Scott can reiterate what we have reflected in our outlook. But as expected, revenue in Greater China was pressured in the first quarter due to the headwinds associated with the zero COVID policy and COVID outbreaks, we do now expect a delayed recovery. We had been calling for a recovery in the market. We're shifting that out a quarter, but we continue to expect growth for the full year. And remember, as we get into the back half of our year, we'll start to lap some of the lockdowns from a year ago. But our view on the long-term opportunity in China hasn't changed. We continue to see significant long-term opportunity across each of our brands. And I think an important data point is in this lead up to the 11.11 holiday, we continue to see strong engagement with our brands in their channels. Our brand health signals in the market, we continue to do a lot of research in the market. Our brand health signals are still good. So our long-term thesis is intact. We're managing through some headwinds, and that's been reflected in our outlook.

>>SCOTT ROE: Not much to add, except I would just say, Brooke, that also from an inventory positioning, quality and quantity, as we've taken it down, we've also been proactive in our adjustments of inventory. So we don't -- we feel pretty good about the inventory situation also in China as we -- even with the adjustments that we've made.

OPERATOR: Thank you. That concludes our question and answer. I will turn it over to Joanne for some concluding remarks.

>>JOANNE CREVOISERAT: Thank you, and thanks all of you for joining us and your interest in our story. We delivered a better-than-expected quarter and maintained our earnings outlook for the year on a currency-neutral basis. A real big thank you to our teams around the world who continue to drive our results.

Our performance highlights the strength of our brands and our ability to effectively navigate near-term challenges by staying agile. And we remain focused on delivering for our customers through the holiday season and beyond. Most importantly, we have a clear strategy to drive significant long-term sustainable growth across our portfolio, and we're confident in the runway ahead.

So thanks, everyone. Have a great day.

OPERATOR: This does conclude the Tapestry earnings conference call. We thank you for your participation. Have a great day.

Load-Date: November 12, 2022
